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FISCAL IMPACT STATEMENT

LS 6958

BILL NUMBER: SB 298

NOTE PREPARED: Jan 26, 2010

BILL AMENDED: Jan 26, 2010

SUBJECT: State Administration.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) *Indiana Public Retirement System*- This bill establishes the Indiana Public Retirement System (System) to administer and manage: (1) the Public Employees' Retirement Fund (PERF); (2) the Teachers' Retirement Fund (TRF); (3) the Judges' Retirement Fund; (4) the Prosecuting Attorneys Retirement Fund; (5) the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund; (6) the 1977 Police Officers' and Firefighters' Pension and Disability Fund; (7) the Legislators' Retirement System; (8) the Pension Relief Fund; (9) the Special Death Benefit Fund; and (10) the state Employees' Death Benefit Fund.

The bill creates an 11-member board of trustees for the System (Board) consisting of 10 members appointed by the Governor and the director of the Budget Agency (or designee) serving as an ex officio voting member. It requires a trustee to complete annually at least 12 hours of trustee education. The bill provides that the Board's powers and duties are the combined powers and duties of the PERF and TRF boards and provides that each retirement fund continues as a separate fund managed by the Board. It provides for a director of the System who is appointed by and serves at the pleasure of the Board. It requires the director to employ managers for PERF and TRF and allows the director to employ managers for one or more of the other public retirement funds of the System.

The bill repeals provisions that establish the PERF and TRF Boards.

Tobacco Use Prevention and Cessation Executive Board- The bill also abolishes the Indiana Tobacco Use Prevention and Cessation Executive Board (executive board) on July 1, 2010, and transfers all assets, obligations, powers, duties, and appropriations of the executive board to the State Department of Health. It repeals statutes governing the executive board.

Evansville State Psychiatric Treatment Center for Children- The bill removes the provision prohibiting the Evansville State Psychiatric Treatment Center for Children from being independent of the Evansville State Hospital and the Southwestern Indiana Community Mental Health Center. It also removes the provision prohibiting the Evansville State Psychiatric Treatment Center and the Evansville State Hospital from reducing staffing levels below those in effect on January 1, 2002.

The bill also repeals corresponding definitions and cross-references.

Effective Date: (Amended) May 1, 2010; July 1, 2010.

Explanation of State Expenditures: *Indiana Public Retirement System:* The total impact of this proposal on the PERF and TRF pension funds will depend on complete implementation and the extent to which economies are achieved, both in lowering administrative and investment costs, along with generating higher investment returns. A consulting firm retained by PERF and TRF estimated a one-time administrative cost savings of \$8.9 M and recurring annual savings of \$1.4 M with combining the administration of the funds. PERF and TRF have also estimated an additional annual savings of \$100,000 for lower employer administrative costs. The bill also eliminates one Executive Director position and reduces the number of overall trustees.

Indiana Tobacco Prevention and Cessation Executive Board: Under the bill, the Indiana Tobacco Prevention and Cessation Executive Board is to be abolished and the program is to be administered by the Indiana State Department of Health (ISDH). This will increase the workload of the ISDH to fulfill the responsibilities the Executive Board formerly fulfilled.

This provision may also decrease state expenditures. During FY 2009, the Executive Board experienced \$1.1 M in administrative expenses, of which approximately \$988,000 was expended on the salary and fringe benefits of 14 staff members. These expenses were financed from Tobacco Master Settlement funds, of which \$10.9 M was appropriated to the Executive Board during the biennium. To the extent ISDH can fulfill the responsibilities of the Executive Board with currently existing staff or more efficiently than the Executive Board, administrative expenditures may decrease. Decreases will depend on the decisions of ISDH administrators.

Evansville State Psychiatric Treatment Center for Children and Evansville State Hospital: The Family and Social Services Administration (FSSA) reports that by removing language governing the administration of the Evansville State Psychiatric Treatment Center for Children, they plan to reduce staffing by seven full-time positions and combine functions of the two facilities. This would represent cost savings of approximately \$280,000 in staffing salary per year and unknown, but additional, cost savings by combining functions between the two facilities.

Background - Indiana Public Retirement System: The following table shows the administrative and investment expenses for PERF and TRF for FY 2009.

FY 2009 Expenses	PERF	TRF
Administrative	\$26.06 M	\$8.07M
Investment	\$63.77 M	\$31.87 M
Total	\$89.83 M	\$39.94 M

Explanation of State Revenues: *Indiana Public Retirement System:* The pooling of assets also could generate higher investment returns and lower investment costs for the pension funds. PERF and TRF estimate that the pooling of assets could generate an increase of 0.2% in investment return. As of November 30 , 2009, PERF net assets amounted to \$14.2 B, and TRF net assets were \$8.1 B. Combined net assets totaled \$22.3 B. The 0.2% increase in investment return is the equivalent to approximately \$44.6 M in incremental annual investment returns.

Explanation of Local Expenditures: *Indiana Public Retirement System:* The bill may also provide some administrative efficiencies to local employers.

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF; Indiana State Department of Health; Evansville State Psychiatric Treatment Center for Children; Evansville State Hospital; FSSA;

Local Agencies Affected: Units with members in PERF and school corporations with members in TRF

Information Sources: Terren Magid, Executive Director, PERF, 317-234-4375; Steve Barley, Deputy Director and Chief Operating Officer, PERF, 317-233-4184; Steve Russo, Executive Director, TRF, 317-232-3864; *FY 2009 Tobacco Cessation and Prevention Executive Board Annual Report.*

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